

STATEMENT OF  
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BEFORE THE  
COMMITTEE ON GOVERNMENT REFORM  
U.S. HOUSE OF REPRESENTATIVES

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Good morning, Mr. Chairman and Members of the Committee. Thank you for inviting me to speak about “OMB’s Management Watch List and the \$65 billion Reasons to Ensure the Federal Government is Effectively Managing Information Technology (IT) Investments.” My remarks will focus on the Administration’s strategy and progress to date in planning, managing, and measuring the results of the Federal government’s IT investments.

You asked me to specifically address OMB’s use of the tool we refer to as the “management watch list” and I will do so, but first I will discuss the overall context within which this list and our many other oversight tools are used.

**Managing the Government-wide Information Technology Portfolio**

As the title of this hearing suggests, this year, the President is proposing to spend roughly \$65 billion for information technology (IT) and associated support services to support the multiple and wide-ranging missions of the Federal government. These IT investments help improve the ability of the government’s programs and operations to more effectively deliver services, products, and information to state, local, and tribal governments, industry, non-profit organizations, and the American people.

A key component of OMB’s mission is to assist the President in overseeing the preparation of the Federal budget, supervise budget administration in Executive branch agencies, and promote orderly agency management. Within this overall mission, we provide guidance for and oversee the planning, implementation, and management of investments pursuant to existing law and policy such as, the Clinger-Cohen Act of 1996. At its highest level, the Clinger-Cohen Act requires OMB to:

- Establish processes for executive agencies to analyze, track, and evaluate the risks and results of major capital investments for information systems, and
- Report on the net program performance benefits achieved by executive agencies as a result of major capital investments in information systems.

The Clinger-Cohen Act assigns agencies the responsibility for implementing OMB policies through effective capital planning and performance- and results-based management.

OMB executes its responsibilities using various methods such as reviewing agencies' annual budget submissions, remaining engaged with agencies throughout the year, and issuing policies and guidance as well as the President's Management Agenda.

### **OMB Circular A-11 and the Budget Process**

Each year, OMB updates and issues Circular A-11, "Preparation, Submission, and Execution of the Budget" to provide guidance to agencies on preparing their budget submission as well as instructions on budget execution. Agency submissions must reflect the policies of the President, including implementation of the President's Management Agenda initiatives.

Of the more than 40 sections within A-11, just two provide specific additional guidance about IT funding requests, i.e., section 53, "Information Technology and E-Government" and section 300, "Planning, Budgeting, Acquisition, and Management of Capital Assets." These sections provide guidance for agency planning, budgeting, acquisition, and management of Federal capital assets. They instruct agencies on:

- budget justification and reporting requirements for major IT investments in areas such as spending and funding plans;
- performance goals and measures;
- project management plans, goals, and progress; and
- IT security plans and progress.

To submit an investment request for a major IT project, agencies must use the "exhibit 300," also called the "Capital Asset Plan and Business Case" (business case).

Please note business cases are primarily planning documents and not a fulsome measurement of agency execution or management of a major IT project. This is an important distinction. OMB reviews and evaluates business cases as part of its overall evaluation of the entire agency budget submission. Euphemistically, we have referred to this business case evaluation process as "scoring." Circular A-11 specifies the evaluation criteria for each of the following ten areas:

1. Supports the President's Management Agenda Items
2. Performance Goals
3. Program Management
4. Alternatives Analysis
5. Risk Management
6. Acquisition Strategy
7. Performance Based Management System
8. Life Cycle Costs Formulation
9. Enterprise Architecture

## 10. Security and Privacy

In addition to OMB's evaluations, for FY2006 IT funding requests, we requested agencies to first self-evaluate their business cases against the criteria for each of the areas listed above and provide the results of their review as part of their budget submission. This was intended to enable an agency to demonstrate to its own management and then to OMB the agency has the proper processes and procedures in place to develop a strong business case for each investment involving the appropriate management review and approval. If, based upon OMB's evaluation, a business case does not successfully meet the criteria it is placed on the "management watch list."

### **The Management Watch List in FY2005 and FY2006**

As I have said, the information included in each business case helps OMB and the agencies ensure correctly planned IT investments. The President's Budget for FY2005 included approximately 1200 major IT projects, totaling about \$60 billion. Of this number, OMB reported slightly over half—621 projects, representing about \$22 billion—as being on a "management watch list."

In my March 3, 2004 testimony about the Federal IT portfolio, I described this list as consisting of mission-critical projects needing improved overall justification, performance measures, project management, or IT security. Agencies were required to correct identified project weaknesses and business case deficiencies. Those failing to do so were subject to additional oversight and requirements prior to spending. We did place conditions on agency spending in five instances last year.

This year we continue to use the "management watch list" as one of many tools to oversee agencies' planning for IT investments and drive improved portfolio management. The FY2006 President's budget proposes approximately \$65 billion for IT and associated support services. A total of 1,087 business cases were submitted this year and less than one third (342), valued at approximately \$15 billion, did not meet the criteria for success. In November 2004, the 342 investments were placed on this year's management watch list. As they did last year, agencies have until the end of the fiscal year to correct all deficiencies or risk limits on their spending. Last week, we concluded our 2<sup>nd</sup> quarter PMA scorecard reviews and I am pleased to report this year's list has been reduced to 248 projects.

It is important to note, OMB is but one of the intended audiences for the business case --the primary audiences are agency officials and their investment review boards. These managers must use the business cases to effectively manage their own IT portfolios and submit to OMB only those investment requests meeting criteria specified in OMB policies and supporting the priorities of the Administration.

Having described a business case as a planning document and the management watch list as one tool used by OMB to monitor agency planning, let me now describe

how other tools are used to monitor actual project execution and performance. In doing so, one will see as OMB does, over emphasis on the management watch list is unproductive.

## **OMB Oversight of Project Performance and the President's Management Agenda**

Although business cases include information designed to identify whether the agency appropriately considered project performance as part of the project planning, they are but a snapshot in time and are not designed to be nor are they used for measuring project performance (i.e., whether the project is within cost, schedule and performance goals). Managing and measuring project performance is of course first and foremost an agency responsibility. OMB then oversees the agencies' activities under the President's Management Agenda (PMA) and its associated quarterly reporting process.

I have described the PMA to the Committee in the past and we use it to drive agency results while monitoring progress in a number of areas. The PMA was launched in August 2001 as a strategy for improving the management and performance of the Federal Government. It focuses on the areas where deficiencies were most apparent and where the Government could begin to deliver concrete, measurable results.

Since its creation, the PMA has expanded to include additional initiatives beyond the original five. The PMA continues to be a valuable help for departments and agencies to adopt new disciplines and promote an effective and enduring focus on results. The initial five key Government-wide areas are:

- Strategic Management of Human Capital - having processes in place to ensure the right person is in the right job, at the right time, and is not only performing, but performing well;
- Competitive Sourcing - regularly examining commercial activities performed by the government to determine whether it is more efficient to obtain such services from Federal employees or from the private sector;
- Improved Financial Performance - accurately accounting for the taxpayers' money and giving managers timely and accurate program cost information to inform management decisions and control costs;
- Expanded Electronic Government - ensuring the Federal Government's \$65 billion annual investment in IT significantly improves the government's ability to serve citizens, and the IT systems are secure, and delivered on time and on budget; and
- Budget and Performance Integration - ensuring performance is routinely considered in funding and management decisions, and programs achieve expected results and work toward continual improvement.

For each initiative, the PMA established clear, government-wide goals or "Standards for Success." Agencies then developed and implemented detailed, aggressive action plans to achieve those goals. Most importantly, agencies are held publicly accountable for meeting their goals. A simple red, yellow, and green grading system was

developed and each quarter, OMB rates agencies on their status in achieving the overall goals of each initiative and on their progress in implementing their action plans.

Specifically, the Expanding Electronic Government Scorecard includes the standards for success below. To get to green, agencies must:

- Have an effective Enterprise Architecture;
- Be able to demonstrate they are managing their major IT projects using an Earned Value Management System so they deliver results as expected, on-time and within budget, i.e., achieving, on average, 90% of cost, schedule and performance goals;
- Secure at least 90% of operational systems and sustaining progress correcting security weaknesses through a Department-wide remediation process verified by the agency Inspector General;
- Avoid redundant or agency-unique IT projects by participating in government-wide E-Gov initiatives and Lines of Business; and
- Successfully justify major IT investments with complete business cases adequately addressing: security, measures of success linked to the Enterprise Architecture, program management, risk management, and cost, schedule, and performance goals.

Each quarter agencies receive a scorecard about their progress and status in achieving the Government-wide goals for these government-wide initiatives. The goal of the E-Government initiative is to use our nearly \$65 billion expenditure in information technology to its fullest to provide services and information centered around citizen groups.

We deliberately included a criterion for “acceptable business cases” for major systems in the PMA Scorecard, to underscore while investing in information technology has a technical component, it is at its core an essential management issue and have greatly increased executive-level attention and accountability with respect to IT spending.

But again, the acceptability of businesses cases is just one of a number of critical components agencies must satisfy to get to green (or yellow) for the E-Government scorecard. If the business case criteria are not successfully met, agencies cannot move forward, regardless of their performance against other E-Government criteria. Agency scores are posted quarterly at <http://results.gov/agenda/scorecard.html>.

Follow-up is dependent on the particular issues identified and tends to focus on strategic issues or problems existing at a government-wide or agency-wide programmatic level, not tactical ones residing with individual investments. For example, from reviewing agency investment requests and through our oversight over the course of the year, we identified widespread weaknesses in agencies meeting cost, schedule and performance goals. Therefore, we specifically emphasized earned value management as a key feature in the quarterly PMA scorecard reviews.

## Conclusion

Thank you for this opportunity to discuss the Administration's strategy and progress to date in planning, managing, and measuring the results of the government's IT investments. Through our existing processes, Congressional hearings, agency IG reports, and GAO findings challenges regarding effective IT planning and management are routinely raised. As we continue to work with agencies to improve the planning, execution, and management of IT projects, we will also continue to look for new opportunities to refine our oversight. The management watch list represents just one example of such an opportunity and helped to call attention to concerns with the planning for major IT projects.

We appreciate your interest in OMB's management and oversight activities and will continue our efforts to drive improved performance and results throughout the Executive branch agencies, including OMB.

Thank you. I will be happy to answer any questions at this time.